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INVESTMENT AND TRADE IN CHINA ¹

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A COMPREHENSIVE discussion of governmental policy in respect to trade relations with the Far East is impracticable here if it requires a lengthy presentation as respects each country separately. It is, therefore, assumed that the term "The Far East" has especial reference to China. Our relations with Japan, Russia, Siam, the Straits Settlements, and India present entirely different problems.

The important problem in our trade relations with the East today concerns China. Have we neglected or improved the opportunities presented after the nations of the world agreed to the doctrine of the open door as enunciated by Secretary Hay? The answer is a trade decline with America of some 25%, while Germany's trade has increased 70% and Japan's 83%. Our exports to China decreased from \$53,000,000 in 1905 to \$21,000,000 in 1913, while our imports from China increased from \$28,000,000 to \$39,000,000. Thus notwithstanding increased imports our total trade fell off 25% in the last eight years of record. With more intelligent appreciation and exploitation of our natural advantages and position, our trade should have greatly increased. Our traditional friendship for China has thus failed to develop to practical advantage, and the lapse of fifteen years finds our commercial position with that country impaired; and the Chinese, suspicious of a policy barren of desirable results, attribute some inexplicable motive to the policy of the "open door." They complain, with some degree of correctness, that we have allowed the "open door" to be shut in our face without protest or even mild opposition. They point out that without any form of aggression, and with studied indifference to the supposed

¹ Read at the meeting of the Academy of Political Science, November 12, 1915.

superior influence or equal rights of the United States, China is being divided into commercial zones of special influence, whose limitations are practically defined by railway concessions.

It is observed that in the past several years Great Britain has acquired rights to build a railroad of 760 miles from Shanghai to Singyifu and of 1000 miles from Nanking to Changsha; that France has acquired rights to build 720 miles from Kweichow to Chengtu and 1100 from Pakhoi to Chung-ching; that equally valuable concessions have been secured by Germany and Belgium. To what extent, if any, long continuance of the European war may impair the integrity of these concessions remains to be seen, but it may readily be assumed, in view of the indifference of the United States, not only that these concessions will be carried out ultimately, but that they will form the bases of additional grants in the same and contiguous territory.

The intent of all these concessions is so simple and frank that diplomatic subterfuge is dispensed with; all orders and contracts for material for the building of these railways will be placed in the country supplying the loans. It follows that all collateral industries induced by the building of railways, by the improvement of cities and the surrounding country, telegraph and telephone lines, manufactories and mills, electric light plants, street railways, and the thousand other ramifications of commerce, will each yield their quota of orders to those supplying the funds for development.

Diplomatic representatives of other powers have actively assisted in the negotiations for these loans. Even in the isolated case of American participation, when the policy of equal treatment to all bidders for supplies was reached by mutual agreement, efforts have been made successfully by the engineers in charge of contracts to defeat the intention of the covenant by so drawing their specifications that none but their own nationals might compete. It is a matter of satisfaction that the State Department, under such circumstances, called the attention of the Chinese government to the facts in order that fair and equal treatment might be assured to American

manufacturers bidding on American standard specifications. If it has been so difficult to obtain equality of treatment where there has been financial participation in joint loans, it should require little argument to demonstrate that without such financial participation it is impossible for American manufacturers, merchants and labor to share to any large degree in the development of China. Our government has been most solicitous for the welfare of the American manufacturers, merchants and labor dependent on them, so far as endeavoring to secure the rights accorded to them under joint loan agreements, and it has been found possible solely through such assistance to obtain adherence to the terms. The necessity of active intervention on behalf of American manufacturers and engineers has been proved, and it is difficult to believe that the government could be criticized for employing the authority which it only can exert in the effort to obtain for its nationals their agreed rights to fair treatment.

It was also gratifying to note that the disinclination of the present administration toward approving the terms of the American participation in the Six-Power Loan gave way to governmental support to the project of the Hwai River conservation, when it developed, under the auspices of the Red Cross Society, that such work was necessary for the commercial and industrial benefit of millions of Chinese who had periodically suffered by floods. The inquiry arises, therefore: Is our policy an altruistic one only, supporting and approving loans predicated solely on humane projects as distinguished from commercial loans? Will approval not be vouchsafed to developments having equally benevolent ends, *i. e.*, improvement of the unenlightened interior of the country, increase in its wealth and material prosperity, and promotion of its civilization, while according at the same time to the American manufacturers and contractors reasonable profits on their investments?

The British government in its wisdom has arranged that no foreign loans may be accepted or issued in England during the war without the consent of the Treasury. Suddenly, therefore, the nations of the world, hitherto dependent on Great

Britain or Europe for funds, have found themselves reduced to the necessity of living on their internal income, to the declaration of moratoria, and even in some cases to the issuance of bonds to cover interest on their foreign loans, for a period of four years, or during the pendency of the war. With their revenues materially reduced by lessened exports to and imports from Europe, they have turned to this country for relief.

China, bereft of its reliance on foreign sources of money, is resorting to internal loans, and the pinch of necessity is leading the Chinese into manufacturing many of their own requirements which they formerly purchased abroad. So far as this induces self-reliance, national self-containment and expansion of its industries, it is to a high degree commendable, but they are unable to understand, as indeed is true of Latin-Americans, why with grateful appreciation of their protestations of friendship, a deaf ear is turned to their pleas for closer and lasting financial and commercial intercourse.

The underwriting of foreign loans is naturally contingent on the ability to distribute them among the investing public. Neither bankers nor manufacturers are willing to accept the risks attendant upon loans unless there is accorded the proper assurance of the government's diplomatic support in the event that the principal or interest on such loans should be defaulted. It might be possible under a different interpretation of our laws, such as is said to be under consideration by the Federal Trade Commission, to effect combinations of manufacturers who would be able, in conjunction with bankers and with proper administrative sanction, to provide in a large way the credit which is urgently required. It cannot be expected, however, that individual manufacturers or merchants of ordinary resources will care to undertake the risks of extensive foreign credit even to established approved houses, to foreign governments of moderate financial responsibility, or to railways or other enterprises in such under-developed countries, without assurance of official sanction and proper diplomatic support in case of need. Especially is this true in times when the influx of business on cash terms to American manufacturers is greater than many conveniently can accept.

If it is necessary that more adequate security should be obtained than the mere promise of foreign governments or government-owned industries to pay at maturity, assured collateral is available by the pledging of custom-house duties, that time-honored expedient of nations in the initial stages of development. If, as in the case of China, it is necessary, before increases can be made in their customs tariffs, for a new treaty to be agreed upon and for the assent of other governments to be obtained with respect to such changes, it would seem the policy of wisdom to inaugurate immediately the necessary preliminaries of consultation in order that China or other countries, to whom we are looking for future trade, may be enabled to enhance their revenues on which loans may be readily based.

This discussion is not concerned with the acquisition of foreign securities solely for investment, but on their acceptance as collateral for supplies to be furnished by American manufacture and labor. So long as the proceeds are devoted to this purpose, it would seem to be a highly commendable act on the part of governmental authority to facilitate in any consistent way the operations of American manufacturers and bankers to this end.

According to current economists, we have departed from our traditional rôle of a debtor nation and become a creditor nation. It is apparent at any rate that in recent months we have been using our surplus investing power as a national asset to induce foreign trade. The necessity for according such foreign loans was too obvious for discussion, but on the same theory it should not require argumentation to prove the financial, political and commercial advantages which accrue to our people in investing their surplus resources in foreign industrial development, providing not only its own security, but giving early and substantial returns in the shape of continuous orders for our mills and workshops and employment of labor.

If the government is the servant of the whole people, there is no impropriety in its acting as chief agent of that great number of its people who are so vitally affected by foreign

trade. Consistently therewith it might employ its representatives accredited to foreign countries not merely in the acquisition of commercial information of more or less hypothetical trade prospects, but in the actual negotiation or assistance in the negotiation of loans and like credit facilities predicated on the development of national resources and capable of producing such effectual returns as would be unlikely under any ordinary conditions to require governmental assistance in collecting the principal or interest.

The Federal Trade Commission issued the following statement on November 4th, 1915:

The war in Europe has so affected the trade of the world that American enterprise has a peculiar opportunity to supply the wants of foreign markets and to secure a greatly enlarged share of their trade. The commission, therefore, deems it to be its duty to complete with all possible dispatch an investigation which may assist Congress in determining what action may be required in the public interest for the promotion of American foreign trade.

It is a most encouraging sign of the times and of the nation's desire to promote foreign trade that an influential body of practical men, such as the Federal Trade Commission, are devoting their time to this subject.

The necessity of financing foreign governments as well as extending credit to foreign customers, which has recently been the subject of extensive inquiry, will no doubt have the best thought of the Federal Trade Commission or other administrative bodies, including Congress. With continuity of business induced by foreign loans, and with connections established between the business houses of this country and foreign nations through such means, there will not only be full outbound cargoes, but continuous return cargoes, as contrasted with the spasmodic and haphazard overseas trade of previous years. This would be facilitated by enlightened amendment of our shipping laws and the payment of adequate compensation for transporting mail by faster steamers.

The average man deprecates governmental intervention in business as far as domestic trade is concerned, and is willing

to take his chance in open competition, but in export trade he faces far different conditions. The governments of Europe actively assist their nationals in every possible way to encourage export trade; by co-operative organizations, by common selling agencies and syndicates or cartels for reducing the cost and combining the sale of product of manufacturers of kindred lines; by special export rates granted on railways and canals, by subventions to steamship lines, and by highly integrated organization of governmental and business components. It is essential that this country should permit its manufacturers, who are struggling to build up their export trade, every reasonable similar means of combating such competition.

A group of American manufacturers under the sanction of the government might well afford to give the necessary credit to China for the purchase of railway or other materials with the knowledge that their guarantee of the bonds accepted, and the active assistance of bankers in underwriting and distributing such bonds to investors, would mean an immediate market for these obligations.

While it seems clear that the government does not purpose to stand aloof from assistance to foreign business, there has not as yet been developed any comprehensive plan whereby such aid can be offered and administered. It is conceded that export trade is a vital part of our national prosperity, that without export trade it is impossible at any time for our manufacturers, capable of producing largely in excess of domestic requirements, to operate to that percentage of capacity which will insure adequate returns upon capital and suitable employment for labor at the wages to which Americans are accustomed and which are required by their standard of living.

There are many groups of competent men versed in the export trade of this country, such as the National Foreign Trade Council, the American Manufacturers' Export Association, the American Asiatic Association, and the chambers of commerce of New York and of other export or manufacturing centers, who would be glad to give their services to the government in foreign-trade problems, such as encouraging foreign investment with a view to greater permanency in the export trade.

American manufacturers and bankers are not seeking to exploit any foreign markets for ulterior motives, but merely to assure to our people a reasonable share of the development of those markets and a reasonable proportion of the orders arising from that development.

If the European war has no other effect on the destinies of the world, it will have awakened the American people to a sense of their world power and responsibility; it will have impelled them to discontinue harassing their business men with all the trivial trials of inquisition into big business; the shackles that have fettered business men may be unloosened to the extent which will permit American manufacturers, bankers, shippers and laborers to realize their manifest destiny in the trade of the world. Our public press, which has been devoting more attention to the problems of foreign commerce, can accomplish a great change in the mental attitude of those who are not students of affairs abroad, or who have been indifferent to foreign commerce and the necessity of foreign investments. If it is realized that a definite policy of diplomatic support will obtain when loans have been approved by the ruling administration, there being no question of coercion or territorial aggression, but merely insistence on the proper administration of loan funds, the proper audit of expenditures for materials and labor, investors of this country will appreciate that the financial stability of these countries is assured because of the honest and proper application of funds supplied for revenue-producing purposes. Under a regime of capable management there can be no likelihood of default or impairment of the investment, as self-interest will dictate co-operation with the representatives of the bondholders to assure recurring supplies of capital.

The necessity of meeting future world competition requires the mobilization of the trade resources of the nation, the co-operation of its manufacturers, bankers, shippers and laboring elements on the basis of preparedness for all eventualities. American manufacturers have always given an honest dollar's worth of goods for a dollar. Our export trade has been built up, not on the ephemeral basis of war requirements, but on

solid ground-work through years of ingenious workmanship, honest salesmanship, superior quality and capable service. In the quest of foreign trade the country can rely on its merchants and manufacturers measuring up to the highest standard of probity and demonstrating by the superiority of their products and methods that they can overcome the initial difficulties of a late start in competition with the older nations. This can be done to a certain degree independent of foreign investment and government aid, but the ideal of a permanent and constantly expanding export trade is founded on practical and liberal support at home with intelligent and alert diplomacy abroad, supplementing good quality, fair prices, and reasonable credits based on judicious financing.

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